MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

Phone: (360) 725-7000
Fax: (360) 586-3535

OFFICE OF
INSURANCE COMMISSIONER

TECHNICAL ASSISTANCE ADVISORY

T 04-02

TO: Life Insurers

SUBJECT: Sale of Juvenile Life Insurance Policies

DATE: June 7, 2004

The purpose of this advisory is to remind life insurers of their obligations under RCW 48.23.345 and the expectations of the Office of the Insurance Commissioner regarding Washington law and underwriting standards for juvenile life insurance policies. RCW 48.23.345 went into effect on August 1, 2001. The statute requires all life insurers selling juvenile life insurance products to have underwriting standards and processes in place and available for review upon request of the Office of the Insurance Commissioner.

> **RCW 48.23.345 "**Life insurers shall develop and implement underwriting standards and procedures designed to detect and prevent the purchase of juvenile life insurance for speculative or fraudulent purposes. These standards and procedures shall be made available for review by the commissioner.
>
> Life insurers shall maintain records of underwriting rejections of applications for life insurance on juvenile lives for a period of ten years."

For convenience, several examples of juvenile sale standards that can be used by an insurer are included below. If an insurer allows exceptions to any of their standards, the criteria for the exceptions should be clearly stated. The insurer should also have procedures to document the reason why any exception was granted.

Insurable Interest and Signatures – As in any life insurance contract, insurers should keep in mind the insurable interest provisions of RCW 48.18.030. Insurers should consider procedures that require persons applying for coverage on a juvenile to demonstrate their insurable interest. Generally, foster parents do not have insurable interest nor do individuals adopting children until the adoption is formally granted by the courts. If court documentation is necessary to establish the insurable interest, the insurer should consider retaining copies of that documentation.

Limiting Insurance Maximums, Including Accidental Death Benefit (ADB)

- An insurer may consider imposing a maximum limitation on the base amount of coverage issued and any ADB. Such limit would include both the amount of coverage applied for and coverage on all in-force policies with the insurer or any other company.

- An insurer may require applicants to cancel any other contracts when the total coverage from all combined carriers would exceed the maximums. An insurer might include the following language on their applications: "As a condition of acceptance, the policy currently in force with (company name) will be cancelled immediately. Failure to cancel shall be grounds for rescission of this policy."

Coverage standards and maximums – An insurer should consider requiring coverage standards. Examples of possible standards include:

- Requiring both parents to have life insurance coverage in an amount equal to or greater than the amount applied for or in-force on the life of the child;
- Requiring similar amounts of insurance to be applied for or in-force on the lives of all siblings; and
- An insurer may consider imposing coverage limits that allow for a maximum face amount of no more than two times the household income or a set maximum, whichever is greater (in the absence of other significant family assets).

Applications for large sums – An insurer may require an automatic review by an underwriting supervisor of any application for a large sum of insurance on a juvenile. In the review, the insurer may seek to establish a financial justification for the large sum. The insurer should consider a procedure that documents the reasons for approving any application for any large sum. Factors an insurer may look at in a review include:

- Family net worth;
- Large amounts of life insurance coverage on both parents;
- Personal income for the child; and
- Net worth for the child.

Questions about this technical assistance advisory may be directed to: Mary Childers at: Marych@oic.wa.gov or 360-725-7095.